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**FISCAL IMPACT STATEMENT**

**LS 7525**

**BILL NUMBER:** HB 1002

**NOTE PREPARED:** Mar 24, 2011

**BILL AMENDED:** Mar 24, 2011

**SUBJECT:** Charter Schools.

**FIRST AUTHOR:** Rep. Bosma

**FIRST SPONSOR:** Sen. Kruse

**BILL STATUS:** CR Adopted - 2<sup>nd</sup> House

**FUNDS AFFECTED:** X GENERAL  
DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) This bill does the following:

*Health Insurance:* This bill allows charter schools to opt in to the state health insurance plans.

*Charter School Board:* The bill establishes the Charter School Board as a statewide sponsor of charter schools. It provides that the Department of Education shall provide staff to the Charter School Board until the Board begins receiving administrative fees from schools chartered by the Board.

*Sponsors:* The bill adds nonprofit private colleges and universities as eligible charter school sponsors.

*Accountability:* The bill establishes certain accountability criteria for charter school sponsors, and places charter schools under accountability standards for public schools. It adds: (1) student academic growth; (2) financial performance and stability; and (3) board performance and stewardship; to the list of items to be included in a charter school's charter.

The bill permits the State Board of Education to close a charter school, transfer sponsorship of a charter school, or reduce the administrative fees collected by the sponsor of the charter school, if the charter school remains in the lowest performance category or designation for five years. It permits the State Board of Education to suspend the authority of a sponsor if at least 25% of the sponsor's charter schools have been subject to an accountability action.

*Transfer of Credits:* The bill requires uniform and consistent transfer of credits for students who transfer from a charter school to another public school.

*Conversion Charter Employees:* The bill stipulates that a teacher in a conversion charter school may be an employee of the charter school or the school corporation as determined in a charter school's charter.

*Virtual Charter Schools:* The bill ends the virtual charter school pilot program, and allows existing virtual charter schools to seek sponsors. It provides that a virtual charter school's funding is equal to the sum of: (1) the virtual charter school's ADM multiplied by 85% of the school's foundation amount (rather than 80% of the statewide average basic tuition support, under current law); plus (2) the total of any special education grants to which the virtual charter school is entitled. The bill also provides that each school year, at least 75% of the students who are enrolled in virtual charter schools for the first time must have been included in the state's ADM count for the previous school year.

*Fees:* The bill sets out the conditions, accounting process, and reporting procedures for a charter school sponsor concerning the collection of fees from its sponsored charter schools.

*Website:* The bill requires the Department of Education to establish a charter school page on the Department's Internet web site.

*Charter School Assistance:* The bill establishes the Charter School Facilities Assistance Program and Fund. It specifies the purposes for which grants and loans of money in the fund may be used. The bill provides that money in the fund may be used to match federal grants from the United States Department of Education for charter school facilities, and deletes current law that allows Common School Fund interest to provide these state matching funds.

*Conversion Charter Schools:* The bill changes the procedure for converting a public school into a charter school.

*Buildings:* The bill establishes a process by which charter schools may lease unused, closed, or unoccupied school buildings that are maintained by school corporations and are not being used for classroom instruction.

*Interest Payments:* The bill provides that a charter school that has received an advance for operational costs from the Common School Fund does not have to make principal or interest payments during the state fiscal years beginning July 1, 2011, and July 1, 2012.

The bill makes conforming changes.

*Repealers:* The bill repeals provisions concerning the number of charter schools an executive of a consolidated city may sponsor and that include teachers in a conversion charter school in the school corporation's bargaining unit.

**Effective Date:** Upon passage; July 1, 2011; January 1, 2012.

**Explanation of State Expenditures:** *Health Insurance:* There might be some minor impact if the inclusion of the charter schools affected the health experience of the state employee health plan as a whole. The impact of the provision should be very minor since the charter school would pay the insurance premiums.

*Charter Board:* The bill would create the a seven-member Charter Board. The board would consist of:

1. Two persons appointed by the Governor,
2. One person appointed by the State Superintendent of Instruction.

3. One person, who may not be a legislator, appointed by the President Pro Tempore of the Senate.
4. One person, who may not be a legislator, appointed by the Minority Leader of the Senate.
5. One person, who may not be a legislator, appointed by the Speaker of the House of Representatives.
6. One person, who may not be a legislator, appointed by the Minority Leader of the House of Representatives.

(Revised) The members of the Board are eligible for salary per diem and travel expenses. Funding for the Board comes from a fee charged to charter schools based on 3% of their basic tuition support. The fees should cover the administrative costs of the Board. The Department of Education (DOE) shall provide staff to carry out the duties of the Board until the Board begins receiving administrative fees.

(Revised) *Sponsors*: The bill would allow the following entities to sponsor charter schools:

1. Schools.
2. State educational institutions that offer four-year associate or baccalaureate degrees.
3. The mayor of Indianapolis
4. The Charter Board.
5. A nonprofit college or university.

The bill could increase the number of charter schools in the state. Currently, a charter can be sponsored by a school corporation, a state educational institution, or the mayor of Indianapolis. There are currently 61 charter schools that educate about 22,000 students. Of the 61 charter schools, 35 were sponsored by Ball State University, 23 were sponsored by the mayor of Indianapolis, and 3 by school corporations.

(Revised) *Accountability*: The cost of monitoring the accountability of charter schools can be done with the current resources of the State School Board and the Department of Education.

*Website*: The DOE would have to establish a charter school page on the Department's website. Included on the website, in addition to other specified information, would be a list of unused facilities owned by each school corporation. DOE would incur some minor costs creating and maintaining the website. Placing the list on the website would not increase costs.

(Revised) *Virtual Charters*: The bill changes the current virtual charter school formula from 80% of the statewide average basic tuition support to 85% of the state foundation amount times the virtual charter school's complexity index. Virtual charter schools would also be eligible to receive special education funding in the school formula.

There is currently a 500-student enrollment limit for virtual charter schools in 2011. However, this bill eliminates the cap on the number of students that may be enrolled in a virtual charter for years beginning in 2012. The impact of changing the 80% of the state average to 85% of the school's foundation amount plus special education grant would increase virtual school revenue by about \$225,400 for CY 2012 and \$280,100 for CY 2013. The impact on future school formulas would depend on whether the increase caused the school formula to exceed the calendar year maximum. If it did, then the increased costs would be spread among the other school corporations on a percentage basis and there would be no increase in state expenditures. However, if the change in reimbursement increased expenditures under the maximum cap for tuition support, the change would increase state expenditures by that increment. The net costs could be reduced, since 75% of new students in the virtual charter school have to have been included in the school formula ADM of some public school the previous year.

(Revised) *Charter School Assistance*: This bill creates the Charter School Facilities Assistance Program and Fund. The program is to make grants and loans to charter schools for:

1. Constructing;
2. Purchasing;
3. Renovating;
4. Maintaining;
5. Paying first semester costs for new charter schools; and
6. Reducing Common School Fund debts for charter schools.

The fund would consist of appropriations, repayment of loans, gifts and grants made to the fund, and any federal money. The money in the fund does not revert at the end of the fiscal year.

**Explanation of State Revenues:** *Fees*: The bill allows additional sponsors of charter schools to charge an administrative fee to the organizer of the individual charter school. Currently, only a state educational institution may charge a maximum fee of 3% of a charter school's basic tuition support to the charter school organizer. This bill would also allow the mayor of a consolidated city, a nonprofit college or university, and the Charter Board to charge an administrative fee up to the 3% maximum. If the fees were applied to current charter schools, the maximum fee would vary from \$4,000 to \$300,000 per charter school. The average would be about \$75,000.

(Revised) *Common School Fund Loans*: The bill would delay principal and interest payments due by charter schools for Common School Fund advancements for FY 2012 and FY 2013. The outstanding balances of advancements as of January 1, 2010, were about \$65.2 M. The advancements had an interest rate of 4%. The reduction in interest revenue would be about \$2.5 M in each of FY 2012 and FY 2013, and the interest payments would be shifted to future years. Reduction of interest revenue could ultimately impact the state General Fund as recent budget bills have used interest from the Common School Fund loans to supplement the Textbook Rental appropriation

**Explanation of Local Expenditures:** *Transfer of Credits*: The transfer of credits from a charter school to a public noncharter school should have no fiscal impact.

*Conversion Charter Employees*: The bill could reduce the cost of conversion charter schools. Currently, charter school employees are employees of both the charter school and the sponsoring school corporation. The provision could reduce conversion charter school costs.

*Buildings*: The bill could reduce the maintenance expenditures on closed or unused school educational buildings if buildings are used and maintained by charter schools. DOE would maintain a list of unused school educational buildings. A charter school would notify DOE of the charter school's intent to use the building. The school corporation would then be required to lease the used school building for \$1 a year for a term of the charter school's discretion. The charter school could also purchase the building for \$1. A school building on the DOE list for 48 months could be sold or disposed of by the school corporation.

It is unknown how many school buildings are being maintained by school corporations that are not used for educational purposes. The savings are probably minor.

*Conversion Charter Schools*: The bill would change the procedure for establishing a charter school. Currently, the conversion from a public school to a charter school requires both a petition where 60% of the teachers at the school request the conversion and a petition where 51% of the parents of students at the

school request the conversion. The bill would allow conversion if either the school board votes in favor of conversion or 51% of the parents of students at the school and 51% of the teachers sign a petition requesting the conversion within 90 days from the first signature. The impact would depend on the number of conversions. To date there has been one school that has converted to a charter school.

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of Education.

**Local Agencies Affected:** Charter schools; School corporations.

**Information Sources:** Treasurer of State; Auditor of State; Department of Education databases.

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